

**REPORT OF THE AUDIT OF THE
FORMER MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Timothy Conley, Morgan County Judge/Executive
Honorable Bill Frank Lacy, Former Morgan County Sheriff
Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the former Morgan County Sheriff's Settlement - 2002 Taxes as of January 5, 2003.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Morgan County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
FORMER MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003

**ROSS & COMPANY, PLLC
Certified Public Accountants**

**800 Envoy Circle
Louisville, KY 40299
Telephone: (502) 499-9088
Facsimile: (502) 499-9132**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003

Ross & Company, PLLC has completed the audit of the Sheriff's Settlement - 2002 Taxes for the former Morgan County Sheriff as of January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$1,740,722 for the districts for 2002 taxes, retaining commissions of \$72,529 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$1,668,503 to the districts for 2002 Taxes. Taxes of \$7 are due to the districts from the former Sheriff and refunds of \$317 are due to the former Sheriff from the taxing districts.

Report Comment:

- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2002 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENT AND RECOMMENDATION	8
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone: (502) 499-9088
Facsimile: (502) 499-9132

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Timothy Conley, Morgan County Judge/Executive

Honorable Bill Frank Lacy, Former Morgan County Sheriff

Honorable Mickey Whitt, Morgan County Sheriff

Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the former Morgan County Sheriff's Settlement - 2002 Taxes as of January 5, 2003. This tax settlement is the responsibility of the former Morgan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Morgan County Sheriff's taxes charged, credited, and paid as of January 5, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Timothy Conley, Morgan County Judge/Executive
Honorable Bill Frank Lacy, Former Morgan County Sheriff
Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company, PLLC

Audit fieldwork completed -
November 17, 2003

MORGAN COUNTY
BILL FRANK LACY, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

January 5, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 106,603	\$ 465,952	\$ 786,923	\$ 261,662
Tangible Personal Property	15,610	74,076	118,919	105,842
Intangible Personal Property				25,037
Fire Protection	3,492			
Increases Through Exonerations	42	183	309	103
Franchise Corporation	16,814	78,549	126,919	
Additional Billings	14	52	87	29
Oil and Gas Property Taxes	393	1,719	2,903	965
Bank Franchises	25,150			
Adjusted to Sheriff's Receipt	8	6	(2)	8
Gross Chargeable to Sheriff	<u>\$ 168,126</u>	<u>\$ 620,537</u>	<u>\$ 1,036,058</u>	<u>\$ 393,646</u>
<u>Credits</u>				
Exonerations	\$ 932	\$ 4,086	\$ 6,889	\$ 2,243
Discounts	1,917	6,014	10,121	4,073
Transfers to Incoming Sheriff	<u>28,895</u>	<u>124,071</u>	<u>208,687</u>	<u>79,717</u>
Total Credits	<u>\$ 31,744</u>	<u>\$ 134,171</u>	<u>\$ 225,697</u>	<u>\$ 86,033</u>
Taxes Collected	\$ 136,382	\$ 486,366	\$ 810,361	\$ 307,613
Less: Commissions *	<u>6,084</u>	<u>20,671</u>	<u>32,414</u>	<u>13,360</u>
Taxes Due	\$ 130,298	\$ 465,695	\$ 777,947	\$ 294,253
Taxes Paid	130,583	465,712	810,376	294,246
Commissions Refunded from School			<u>32,414</u>	
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (285)</u>	<u>\$ (17)</u>	<u>\$ (15)</u>	<u>\$ 7</u>

* and ** See Page 4.

The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY
 BILL FRANK LACY, FORMER COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2002 TAXES
 January 5, 2003
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	920,361
4% on	\$	810,361

** Special Taxing Districts:

Library District	\$	(3)
Health District		(16)
Extension District		2
Soil Conservation District		2
Ambulance District		(2)

Due Districts or (Refunds Due Sheriff)	\$	<u>(17)</u>
--	----	-------------

The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENTS

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the former Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENTS
January 5, 2003
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 22, 2002 through January 5, 2003.

Note 4. Interest Income

The former Morgan County Sheriff earned \$1,372 as interest income on 2002 taxes. As of November 17, 2003, the Sheriff owes \$613 in interest to the school district and \$759 in interest to his fee account.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The former Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. As of November 18, 2003 there was a surplus balance of \$2,543 in the Sheriff's Tax Accounts. Of this surplus \$740 pertains to 1999 tax collections. The remaining balance of \$1,753 pertains to 2001 and 2002 tax collections. The former Sheriff used the same bank account for the 2001 and 2002 tax collections. Therefore we were unable to determine how much of this balance pertains to each tax year. The total unrefundable duplicate payments and unexplained receipts in the Sheriff's Tax Accounts is \$2,543. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

MORGAN COUNTY
BILL FRANK LACY, FORMER COUNTY SHERIFF
COMMENT AND RECOMMENDATION

January 5, 2003

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly “ that part of his investment earnings for the month which is attributable to the investment of school taxes.” The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff’s fee account. During 2002 tax collections, former Sheriff Bill Frank Lacy earned interest of \$1,372 on his tax account. As of January 5, 2003, former Sheriff Bill Frank Lacy owes the Morgan County Board of Education \$613 in interest and owes the fee account \$759. We recommend the former Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

Former Sheriff’s Response:

None.

PRIOR YEAR:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$166,857 To Protect Deposits

This comment has been corrected.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone: (502) 499-9088
Facsimile: (502) 499-9132

To the People of Kentucky

Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Timothy Conley, Morgan County Judge/Executive
Honorable Bill Frank Lacy, Former Morgan County Sheriff
Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Morgan County Sheriff's Settlement - 2002 Taxes as of January 5, 2003, and have issued our report thereon dated November 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Morgan County Sheriff's Settlement - 2002 Taxes as of January 5, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

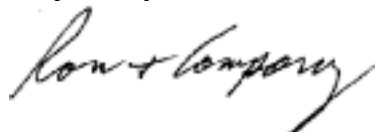
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Morgan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
November 17, 2003

